

July 15, 2011

Filed Via ECFS

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Notice of Ex parte

WC Docket Nos. 10-90, 07-135, 05-337 and 03-109, GN Docket No. 09-51 and CC Docket Nos. 01-92 and 96-45; Connect America Fund, a National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Support, Developing a Unified Inter-carrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-up

Dear Ms. Dortch:

On July 14, 2011, John Tormoehlen of Valley Telecommunications Cooperative Association, Inc. (Valley), Joshua Seidemann of the National Telecommunications Cooperative Association (NTCA), and Rhonda Maun and I of Consortia Consulting, Inc., met with Amy Bender, Randy Clarke, Patrick Halley, Kevin King, Gary Siegel, Amy Beyer, Katie Church, and Rafi Malansa of the Wireline Competition Bureau to discuss the Commission's proposals to reform the universal service fund (USF) as set forth in the notice of proposed rulemaking (NPRM) in the referenced dockets.

Mr. Tormoehlen and I presented company statistics and financial information to help explain the significant adverse impact that the USF and ICC reform proposals in the NPRM would have on Valley and Valley's communities and subscribers. The attached presentation, which has been redacted for public inspection, guided our discussion. A complete copy is hand-filed today at the Commission with a request for confidential treatment pursuant to 47 C.F.R. §§ 0.457 and 0.459

On behalf of Valley and pursuant to Section 1.1206(b) of the Commission's rules, a redacted copy of this submission is filed for inclusion in the public record of the referenced proceeding.

Sincerely,

s/Dan Caldwell

Dan Caldwell, President
Consortia Consulting, Inc.

cc: John Tormoehlen, Valley Telecommunications
Amy Bender
Randy Clarke
Patrick Halley
Kevin King

Analysis of USF Reform NPRM Released 2/9/2011

COMPANY: Valley Telecommunications

REDACTED - FOR PUBLIC INSPECTION

Line	Description	Source	2010	2011	2012	2013	2014
ALL REVENUES							
Revenues - USF Support:							
LN1	NECA-ICLS	3 year forecast	Redacted	Redacted	Redacted	Redacted	Redacted
LN2	NECA-LSS	3 year forecast	Redacted	Redacted	Redacted	Redacted	Redacted
LN3	USF SNA	From USAC Appendix 1	Redacted	Redacted	Redacted	Redacted	Redacted
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LN7a	Monthly USF Support per Line	=(LN7 / 12)	Redacted	Redacted	Redacted	Redacted	Redacted
Other Revenues:							
LN8	Other Interstate Revenues (ie. NECA settlements, Interstate Access, etc.)	Interstate Less ICLS and LSS	Redacted	Redacted	Redacted	Redacted	Redacted
LN9	All Other Revenue (ie Local, Intrastate Access, etc)	Total All Revenue Less Above	Redacted	Redacted	Redacted	Redacted	Redacted
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LN 11	TOTAL ALL REVENUES	=(LN7 + LN10)	Redacted	Redacted	Redacted	Redacted	Redacted
All Operating Expense, Interest, Other:							
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NPRM Impacts					2012	2013	2014
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*** Line 9-Year 2012 - Includes a reduction in state access revenue if state access rates are reduced to interstate access rates.

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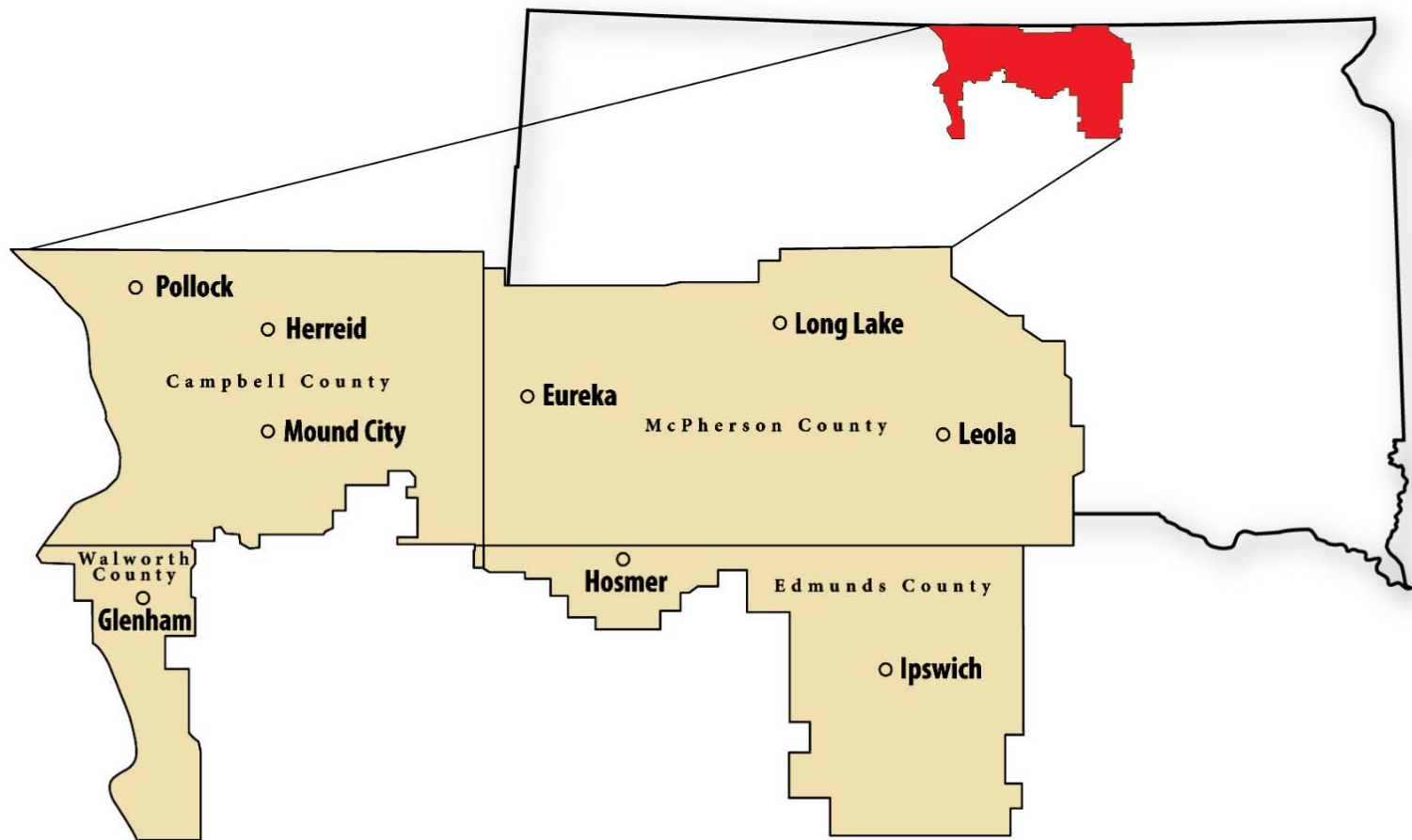
Valley Telecommunications FCC Meeting

Thursday, July 14, 2011
10:30 a.m. – FCC Offices

John Tormoehlen, General Manager

Valley Service Area

North Central South Dakota



Valley Telecommunications

Service Area Information

▶ Area Served

- Square miles served **** miles
 - Customers per square mile ****
- Route miles served **** miles
 - Customers per route miles ****

- * communities, * exchanges
 - Largest community – Eureka, SD (pop. ***)
 - Smallest Community – Hillsvew, SD (pop. **)
 - Average community size – *** residents

Valley Telecommunications

Customers and Services

- ▶ Customers and Services
 - [REDACTED] access lines
 - [REDACTED] in-town
 - [REDACTED] out-of-town
 - Broadband penetration = ****
 - GPON/VDSL – speeds ranging from *mg/*mg to **mg/**mg (** customers at highest speed)
 - ADSL – speeds ranging from ***k/***k to ***k/***k
 - Services offered by Valley include telecommunications, long distance, internet, video/TV, and wireless (on a resale basis).
- ▶ Valley provides ***special access circuits
 - *** are provided to *** wireless towers
 - *** to banking, educational and medical facilities

Valley Telecommunications

Employees

- ▶ Valley Employees
 - ** FT employees
 - * PT employees
 - Annual payroll of approximately [REDACTED]

- ▶ FT staff composition
 - * technical employees
 - * manager, * inside plant tech, * outside plant techs
 - Each outside tech services over *** square miles
 - * administrative employees (cust. svc, acctg., etc.)
 - * managerial employees

Valley Telecommunications

Plant Assets

▶ Financial Statistics (2010)

◦ Total Plant in Service

- Gross Investment ***
- Accumulated Depreciation ***
- Annual Depreciation Expense ***

▶ An additional *** is invested in non-regulated video plant

Valley Telecommunications

Revenue

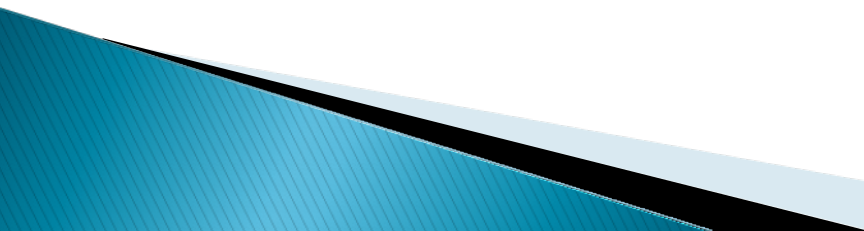
▶ 2010 Regulated Revenues – [REDACTED]

- Retail Revenues ***
- HCL ***
- ICLS ***
- LSS ***
- Access Revenues
 - Interstate switched ***
 - Intrastate switched ***
 - Interstate special ***
 - Intrastate special ***
- LD and Other ***

Valley Telecommunications

Expenses

▶ 2010 Regulated Expenses – [REDACTED]

- Plant Specific ***
 - Plant non-specific ***
 - Depreciation ***
 - Customer Operations ***
 - Corporate Operations ***
- 

Valley Telecommunications

RUS information

- ▶ Over the past ** years Valley has applied and received RUS 30-year notes on ** occasions
 - Total amount of ** loans = ***
 - Remaining balance = ***
 - Most were hardship loans at ***

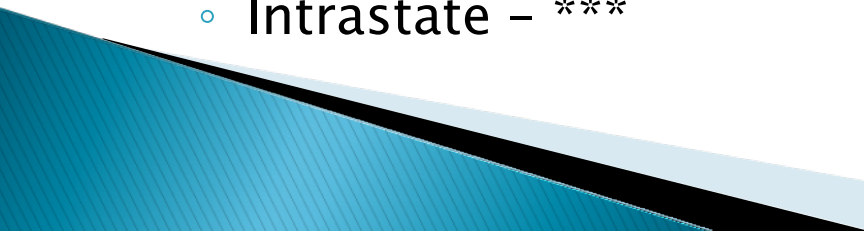
- ▶ In 1996, Valley secured *** in RUS funding to acquire and upgrade two US West exchanges
 - Loan scheduled for final payment – ****
 - ***

Valley Telecommunications

Service Rates

- ▶ Residential access line rate *** (w/o SLC)
 - Residential lines – ***
 - Business lines – ***

 - ▶ Broadband Rates
 - Rates range from ***
 - Average rate is ***
 - *** penetration

 - ▶ Access rates
 - Interstate – ***
 - Intrastate – ***
- 

Valley Telecommunications

Market Demographic Data

- ▶ Average age in South Dakota – ** years
 - Average age of Ipswich subscriber – ** years
 - Average age of Eureka subscriber – ** years
- ▶ Average family income in South Dakota \$**k
 - Average family income in Ipswich – \$**k
 - Average family income in Eureka – \$**k
- ▶ Lifeline subscribers – ***

Valley Telecommunications

Calculated NPRM Impacts

Estimated NPRM Financial Impacts \$ in 000s	2010	Estimated NPRM Impact	Post-NPRM Result
Net Margin	[REDACTED]	[REDACTED]	[REDACTED]
Federal USF			
HCL	[REDACTED]	[REDACTED]	[REDACTED]
ICLS	[REDACTED]	[REDACTED]	[REDACTED]
LSS	[REDACTED]	[REDACTED]	[REDACTED]
State Access	[REDACTED]	[REDACTED] [REDACTED]	[REDACTED]

Financial Impact Assumptions:

1. Federal USF

HCL – LSS support combined with HCL support

HCL – Corporate Operations expense eliminated as a HCL calculation input

HCL – HCL calculation utilizes 55% and 65% of loop costs

2. State Access Revenue reduced to Interstate Access levels utilizing NECA average access rates

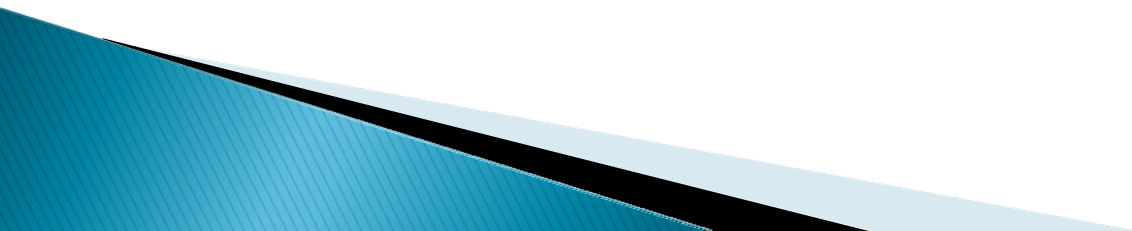
Valley Telecommunications

Calculated NPRM Observations

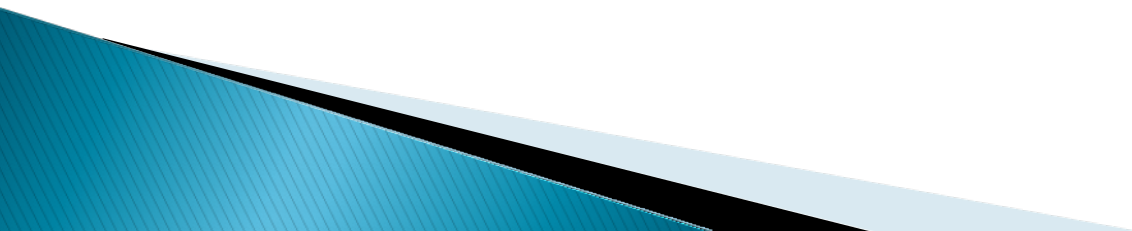
- ▶ The *** impact of the proposed NPRM reforms represents ***.
- ▶ The impact represents ***.
- ▶ The proposal would cause Valley to operate at an annual loss of *** (based on 2010 results).
- ▶ Both retail voice and broadband rates would have to approximately double to generate the *** in proposed access/USF losses.
 - assuming no line loss from much higher rates

Valley Telecommunications

Valued Community Partner

- ▶ Major employer in the Herreid community
 - ▶ SD gross receipts tax base generates significant funding for school system
 - ▶ Valley employees serve as EMTs, volunteer firemen, school board members, and more.
 - ▶ Valley supports every town they serve with participation in local fundraisers and community events.
- 

More at Risk than Valley Tel

- ▶ The proposed NPRM creates risks not just for the viability of Valley Telecom, but also threatens the quality of life in the ** communities they serve.
 - ▶ Higher service rates, fewer service options, fewer community employees, lower local tax base, lower school funding, loss of population and lower quality of life are all very real possibilities for the residents in Valley service territories.
- 



Valley Telecommunications Cooperative Association, Inc.

102 Main Street South ~ PO Box 7

Herreid, SD 57632

PH: (605) 437-2615

FAX: (605) 437-2220

www.valleytel.net

Services We Provide: Telecommunications, Long Distance Service, High Speed Internet, Video TV Service, Wireless Service

Total Miles Served: **** – Square Miles **** – Route Miles

Customers Per Square Mile: ***

Customers Per Route Mile: ***

Total Exchanges Served: *

Largest Community: Eureka, SD – *** Residents

Smallest Community: Hillsvew, SD – *** Residents

Average Community: ***Residents

Total Communities: **Communities and surrounding areas served

Total Customers Served: ****

In-town (Residential) **** Customers

Out-of-town (Rural) *** Customers

Access Lines **** Access Lines



Broadband Capabilities

Valley offers a variety of broadband services to accommodate every level of broadband user. With technologies including ADSL, VDSL, and GPON, we are able to provide our customers with the broadband support they need and want in their everyday lives. Approximately **% of our customer base has access to up to **mbps of bandwidth. While we are currently in Phase * of * in our FTTF (Fiber-to-the-Farm) project, the remaining **% will have these same opportunities by the end of 2012.

Currently, our high-speed broadband customers that are living within city limits have access to **mbps using ADSL/VDSL technology. Upon completion of our FTTF project, we have plans to begin work on FTTP (Fiber-to-the-Premise) for our in-town customers, making our network totally Fiber Optic!

Broadband Speeds Offered: ***(Download Speed/Upload Speed)***

Available via GPON/VDSL:

Available via ADSL:

Broadband Penetration Rate: ****%**

Number of Customers in Highest Speed: ******

Additional Broadband Services Available: Wireless Router Sale & Lease, E-mail Service, Domain Name Hosting, Static IP Address Services, SecureIT Anti-Virus Protection, Free Internet Help Desk Service, and TotalTech Technical Support Services



The Member/Customers

Valley serves a very diverse population of member/customers in our farm-based communities. From Farmer/Ranchers, to Small Business Owners, to the typical 9 to 5 person, we strive to provide the services our customers need on a daily basis for their business operations and their personal lives.

Residential Access Line Rate: \$****/month

Residential Lines: ****

Residential Additional Lines: **

Business Lines: ***

Business Additional Lines: ***

Average Broadband Subscriber Rate: \$**/month

Number of Customers Subscribing to Lifeline: ***

Current Switched Access Rates:

Interstate Access: \$****

Intrastate Access: \$****

Average Age of Subscribers:* Ipswich - ** years Eureka – **

Average Income of Subscribers: Ipswich - \$***** Eureka - \$*****

Median Age in South Dakota: ** years

Median Family Income in SD: \$*****

**Valley recognizes that the average age of the people we serve is older than the state average. Valley sees this as an opportunity and provides basic Internet and E-mail classes free of charge to help our customers keep up with the changing technologies.*



Special Access

Along with the many other services Valley provides, we are active in assisting routing wireless traffic over our transport facilities. Every day, ** Cellular towers using ** Special Access circuits rely on our facilities to make sure their calls complete. An additional ** other Special Access circuits use our facilities to transport sensitive data such as medical and banking information. Valley is proud to offer our customers the capability of offering up to **** circuits to suit all of their needs!

Internet Backbone

In cooperation with South Dakota Network (SDN), Valley is *** miles from the transport hub in Sioux Falls, SD. At a cost of \$**** per month, Valley is able to offer our customers top-notch high-speed Internet capabilities.



The Company

As a dedicated community partner, Valley has maintained an intense level of interest and support in the areas we serve for over 50 years! Valley has grown to provide local telephone access in nine rural exchanges here in South Dakota. With an eye steady on future technologies, Valley also provides High Speed Internet, Long Distance Service, Video TV Service, and Wireless Service.

Valley recognizes exactly how important quality telecommunications and broadband services are to the rural areas we serve. With wireless services not always dependable in a portion of our service area, our customers rely on us for the quality and consistency they deserve. Also, serving as the only broadband service provider in most of our territory, Valley's network is the only way many of these customers are able to connect with the world via the Internet.

In addition to the constant facility upgrades and implementation of new technologies, Valley also enjoys an active role as a community member across our territory. From scholarships for graduating seniors, gross receipts taxes (based on *% of gross revenues) for our schools, to local support of community events and fund-raisers, Valley, its employees and directors, are interested in making a difference where our customers live.

We serve as volunteer firemen and EMT's, city board members, school board members, and participate in many other local organizations. Valley is committed to keeping our small towns alive, keeping our businesses open, and being a great neighbor and friend. Without a major city or major corporate employer in our service area, Valley employees appreciate the opportunity to work and serve the communities in which they live.

The People

Valley currently employs ** full-time employees and ** part-time employees. Approximately \$*****/month is set aside for payroll.

Included among Valley's staff members are * Outside Plant Technicians, each serving an average service area of **** square miles and **** customers. These technicians are supported by * Inside Plant Technicians, * Customer Service Representative, * Managers, and several other office personnel.



RUS/RTFC Support

In September, 1950, a meeting was held in Mound City, South Dakota, by a group of area residents who were interested in bringing improved telephone service into the area. As a result of this meeting, it was decided to canvas the area to see if there would be enough interest to form a Cooperative and obtain a loan from REA (Rural Electrification Administration) to provide dial telephone service.

A committee was formed and proved to REA that a system would be feasible. The name of Valley Telephone Cooperative Association, Inc. was selected and Articles of Incorporation were filed in 1952. In 1954, a REA loan in the amount of \$***** was granted by REA. Construction began in 1955 and dial service was installed in Glenham, Herreid, Mound City and Pollock in 1956. The rural lines were all eight party, with private line service being offered only in towns.

Valley has applied and was approved for ** *- year term loans from RUS over the past ** years. The majority of the loans that were approved were *% hardship loans. The total loan amount approved by RUS was \$***** and is detailed as follows:

	<u>Approved Loans</u>	<u>Remaining Balance</u>
RUS Loan	\$*****	\$*****
RTB Loan	\$ *****	\$ *****
FFB Loan	\$*****	\$*****

The last loan Valley applied for in 2009, from RUS, is known as the U-loan and it was in the amount of \$*****. This loan was designed to provide Fiber-to-the-Premise (FTTP) to all rural subscribers in the **** exchanges that Valley serves.

In 1996, Valley purchased two exchanges from US West which doubled the size of the Cooperative. Funds were borrowed from Rural Telephone Finance Cooperative (RTFC) to fund the purchase. The amount approved by RTFC for the acquisition was in the amount of \$*****. It was a ** year loan and has had an average interest rate of *** A second RTFC loan was approved in the amount of \$***** to provide the properties acquired from US West with state-of-the-art central office switching equipment and SONET terminal equipment. Valley is proud and excited that in December 2011 these two loans from RTFC will be paid in full!



Statewide Backbone Network & Equal Access Tandem

In 1989, fourteen of South Dakota's independent telephone companies formed South Dakota Network (SDN) to serve as a hub for long distance services in South Dakota. Today, SDN's seventeen independent telephone companies make up the company now known as SDN Communications. It not only serves as a hub for long distance, but also for Internet and Video TV services. Over one million phone calls pass through SDN's offices each day and video signals are sent out over a protected Internet connection, quite an achievement for being one of only 3 statewide backbone networks and equal access tandem in the nation!

SDN helps to connect the area's leading businesses, providing high-speed Internet, site-to-site connectivity, and technology equipment for hospitals, banks, schools and government offices and research labs. In 2008, SDN launched the Research Education Economic Development (REED) Network which delivers large Internet pipes to each public university campus plus state government offices. This allows these institutions to move huge amounts of data and compete for national research projects.

In December of 2009, SDN was one of the first ** companies awarded a federal stimulus grant as part of the National Telecommunications and Information Administration's (NTIA) Broadband Technology Opportunities Program (BTOP). The \$** million grant plus the \$* million that SDN will contribute will add ***miles of fiber optic cable to connect *** institutions throughout the state to SDN's network. Today, SDN's network reaches into *** states with over ***** miles of fiber!

Long Distance Service

Express Communications is a sister company to SDN Communications. Express was formed to be an aggregator of long distance services for its owner companies – the ** independent telephone companies of South Dakota that also own SDN. Express has no employees; SDN's employees are contracted to do work for Express. It operates on a break-even approach in order to provide low-cost long distance options to the independent telephone companies and its customers.



Local Exchange Carriers Association

The Local Exchange Carriers Association (LECA) is comprised of eighteen independent local telephone exchange carriers operating in South Dakota. LECA was formed to develop and file intrastate access tariffs, to administer intrastate access revenue pools and distribute the revenues to member local telephone exchange carriers. LECA was incorporated in December of 1990 and commenced operations January 1, 1991. Membership in LECA is voluntary.

The access charges administered by LECA are the fees long distance companies pay to access the local phone network to complete intrastate calls. These charges help ensure that telephone service remains available, affordable and uniform in member company service areas throughout the state.

LECA provides the following services to its members:

- administration of access charge revenue pooling and cost based distribution
- rate and tariff development
- PUC tariff filings
- collection and validation of minutes of use
- PUC and LECA rule compliance and assurance
- regulatory policy analysis
- trend analysis



Valley Telecommunications 2010 Financial Statement

Revenues:

Local Network Service Revenue	\$ ***
Calling Feature & Directory Assistance Revenue	***
End User Access Revenue	***
USAC High Cost Loop Revenue	****
NECA Access Settlement Revenue	***
LECA Access Settlement Revenue	***
Interstate Traffic Sensitive Access Revenue	***
Interstate Special Access Revenue	***
Intrastate Traffic Sensitive Access Revenue	***
Intrastate Special Access Revenue	****
Internet & Video Access Revenue	*****
International Long Distance Revenue	****
Interstate Long Distance Revenue	****
Intrastate Long Distance Revenue	****
800# Long Distance Revenue	*** ***
Transport Revenue	***
Directory Advertising Revenue	***
Miscellaneous Revenue	***
Uncollectible Revenue	***
Total Revenues	\$*****

Expenses:

Plant Specific Operation Expense	****
Plant Non-specific Operation Expense	*****
Depreciation Expense	*****
Customer Operations Expense	*****
Corporate Operations Expense	*****
Total Operating Expenses	\$*****

Operating Income or Margins

	\$ *****
State & Local Taxes	*****
Interest on Funded Debt	*****
Allowance for Funds Used During Construction	*****
Nonoperating Net Income	*****
Nonregulated Net Income	*****

Total Net Income or Margins



Valley Communications – Internet 2010 Financial Statement

Internet Revenues:

Internet Subscriber Service Revenue	\$ *****
Misc - Connect/e-mail/hosting/router Revenue	*****
Total Internet Revenue	\$ *****

Expenses:

Salaries & Wages Expense	*****
Modem & Supplies Expense	*****
SDN - Internet Bandwidth Expense	*****
SDN Hosted Equipment Support Expense	*****
Golden West - Authentication Expense	*****
Golden West - Help Desk Support Expense	*****
NFU - Insurance Expense	*****
Wire homes for FTTF for DSL	*****
Total Internet Expenses	\$ *****

Total Net Income or Margins \$ *****

Valley Communications – Video 2010 Financial Statement

Video Revenues:

Video Programming Service Revenue	\$ *****
Video Pay-Per-View Revenue	*****
Video Labor/Connect Revenue	*****
Interest Income	*****
Miscellaneous Revenue	*****
Total Video Revenues	\$ *****

Expenses:

Salaries & Wages Expense	*****
Utilities Expense	*****
SDN Transport Expense	*****
Insurance Expense	*****
Programming Expense	*****
Depreciation Expense	*****
Copyright/support/board/wire homes Expense	*****
Miscellaneous Expense	*****
Amortization Expense	*****
Total Video Expenses	\$ *****

Total Net Loss for Video *****



**Impact of USF Reform
(Redacted)**

Analysis of USF Reform NPRM Released 2/9/2011

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